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C O N F I D E N T I A L SECTION 01 OF 02 KHARTOUM 000806

SIPDIS

DEPT FOR SE GRATION, S/USSES, AF A/S CARSON, AF/E  
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TAGS: [EFIN](#) [ECON](#) [EAID](#) [PGOV](#) [PREL](#) [KPKO](#) [UNSC](#) [AU](#) [SU](#)  
SUBJECT: GOSS RECEIVING FULL SHARE OF FOREIGN CURRENCY  
TRANSFERS, SAY GNU OFFICIALS

REF: A. 08 KHARTOUM 1566  
[1](#)B. KHARTOUM 727

Classified By: CDA Robert E. Whitehead, for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: In a June 29 meeting with CDA Whitehead, GNU State Minister of Finance Dr. Luol Deng explained that contentions on the dual banking system between the NCP and SPLM arose due to mistakes made by the South in drafting the implementation annex of the CPA. He further asserted that contrary to the claims of his SPLM comrades, the GOSS has been receiving its full share of oil revenues in foreign exchange and that the problem lies rather in the precipitous decline in oil revenues on which the GOSS depends totally. He also noted that \$50-70 million in arrears remaining from 2005 is essentially a Southern problem, because debate as to whether the money belonged to the SPLM or the GOSS has not been resolved. On June 30, Governor of the Central Bank of Sudan (CBOS) Dr. Sabir Hassan largely echoed these views. Both Deng and Hassan urged that the USG advise the GOSS to put its fiscal house in order. End Summary.

#### One Monetary Policy, Two Banking Systems

[1](#)2. (C) CDA Whitehead briefed Deng, an SPLM-appointed member of the GNU, on the disputes that arose over wealth-sharing provisions of the Comprehensive Peace Agreement (CPA) at the recent Trilateral Talks in Washington. Deng noted that the CPA makes clear that CBOS is responsible for a single monetary policy for all of Sudan, and that the Bank of Southern Sudan (BOSS) is a branch of the CBOS, responsible for implementing that policy in the South, s commercial-banking system. (Note: The CPA allows the South to operate a banking sector based on western commercial principles, separate from the Islamic system in place in the North. End note.) The CBOS should have been restructured for a to implement the single monetary policy under the CPA-mandated dual-banking system, he said, but the South failed to incorporate the necessary institutional arrangements when it drafted the implementation of the annex of the CPA. "That was our mistake," he lamented.

#### The GOSS is Receiving Its FX

[1](#)3. (C) Deng also disputed the claims of his SPLM comrades regarding the continuing foreign-exchange (fx) dispute (ref. A), asserting that that South has been receiving its full share of oil revenues in fx. Rather, the problem lies in the precipitous fall in oil revenues on which the GOSS depends totally (ref. B), from as high as \$190 million in the past to as little as \$42 million in recent months. With total expenditures running at \$110 million/month, the GOSS has had to use all of its fx to buy Sudanese pounds from the CBOS to

pay salaries, he said. "Essentially, they're not getting as much money as they want."

#### Revenue Transfer Disputes

14. (C) Deng added that a compromise needs to be reached on a dispute arising from deductions being made by the GNU to fund national elections from oil revenues to the GOSS (ref. B). Money is fungible, he remarked, whether it all comes from oil revenues or from all GOS revenues, which would spread the burden of payment more equitably. With regard to \$50-70 million in arrears in revenue transfers remaining from 2005, Deng stated that those arrears are essentially a Southern problem, because a dispute as to whether the money belongs to the SPLM or the GOSS had not been resolved. (Note: That sum represents money accrued during the interim period between the signing of the CPA and the establishment of the Government of Southern Sudan (GOSS) End Note.) The GNU will not release the money until it is clear who is the rightful recipient, he said.

#### Central Bank Governor Agrees

15. (C) In a June 30 meeting with CDA Whitehead, Central Bank of Sudan Governor and respected technocrat Dr. Sabir Hassan echoed Deng's views on the long-running foreign exchange dispute. Reserve management is a key instrument of monetary policy, he explained, and the fx reserves held by the BOSS do not belong to the GOSS. Rather, they are there to provide the people of the south the fx needed to carry out commercial transactions requiring foreign currency. The GOSS is able to buy either fx or Sudanese pounds with its monthly share of

KHARTOUM 00000806 002 OF 002

petroleum receipts, but it cannot draw down on fx that it has not purchased, which would in effect finance GOSS deficit spending from CBOS reserves. The system was working fine until former GOSS Minister of Finance Mawien laid claim to BOSS reserves, turning a technical issue into a high-level political dispute. However, Hassan stated that his initial impressions of Mawien's replacement, David Deng Athorbei, are positive. "I believe he will be much more cooperative," Hassan said.

16. (C) Hassan also noted to CDA Whitehead that he has formed a committee to begin examining the monetary implications of a potential Southern secession post-2011 and develop blueprints for alternate scenarios. He stated that his impression is that little is being done in the South to prepare for the monetary implications of secession, in large part due to lack of capacity. "Unfortunately, the South has few economists," which makes dealing with contentions on issues of wealth sharing particularly difficult, he said. Hassan also asserted that, despite SPLM complaints, Southern Sudan is able to engage freely in conventional banking but has been unable to make a go of this due to the lack of interest by outside commercial banks. Many are reluctant to open operations in the South until after the 2011 referendum has passed, ergo a crippling lack of capacity and competition.

#### Comment

17. (C) The GOSS appears inclined to cling to emotional arguments rather than implementation of urgently needed fiscal austerity measures in the wake of falling oil revenues. In terms of expertise and capacity, the South remains woefully unprepared for the economic and financial implications of independent statehood. Southern leaders must put their fiscal house in order and begin seriously planning for a post-2011 financial reality if separation is to be the choice.

WHITEHEAD